

August 5, 2004



Financial Management

Selected Controls Over the Army
Fund Balance with Treasury at
Defense Finance and Accounting
Service Indianapolis (D-2004-106)

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Acronyms

DFAS	Defense Finance and Accounting Service
DODR	Disbursing Officer Deposit Report
FBWT	Fund Balance With Treasury
IG DoD	Inspector General of the Department of Defense
TTB	Treasury Trial Balance



INSPECTOR GENERAL
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August 5, 2004

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE
(COMPTROLLER)/CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

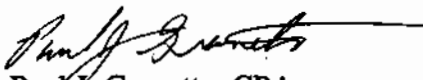
SUBJECT: Report on Selected Controls Over the Army Fund Balance with Treasury at
Defense Finance and Accounting Service Indianapolis (Report
No. D-2004-106)

We are providing this report for information and use. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Marvin L. Peek at (703) 325-5777 (DSN 221-5777) or Mr. Jack L. Armstrong at (317) 510-3846 (DSN 669-3846). See Appendix B for the report distribution. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:


Paul J. Granetto, CPA
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Office of the Inspector General of the Department of Defense

Report No. D-2004-106

August 5, 2004

(Project No. D2004FI-0008)

Selected Controls Over the Army Fund Balance with Treasury at Defense Finance and Accounting Service Indianapolis

Executive Summary

Who Should Read This Report and Why? DoD financial managers and personnel who prepare financial statements should read this report. The report identifies a control weakness regarding suspense accounts and reconciliation of net disbursements, which led to material uncertainties in the FY 2003 Army Fund Balance with Treasury.

Background. We examined the Fund Balance with Treasury reported on the Army General Fund FY 2003 Balance Sheet, which reported total assets of \$208.7 billion, including the Fund Balance with Treasury of \$54.7 billion. The Fund Balance with Treasury represents the aggregate amount of the Army General Fund accounts with the U.S. Treasury from which the Army is authorized to make collections and expenditures.

Defense Finance and Accounting Service (DFAS) Indianapolis provides finance and accounting support to the Army and Defense agencies. Army and Defense agency field accounting entities provide DFAS Indianapolis with general ledger trial balances and other financial data on the status of appropriations, and DFAS Indianapolis uses the information to maintain departmental accounting records and to prepare the entities' financial statements. DFAS Indianapolis also reconciles detailed records of transactions temporarily recorded in suspense accounts maintained by field or departmental accounting entities with summary records maintained by the Department of the Treasury. DFAS Indianapolis is also responsible for ensuring the accuracy of the Fund Balance with the Treasury reported on the financial statement Balance Sheets. In order to do this, DFAS must reconcile the departmental records to the net disbursement amounts reported by the Department of the Treasury.

Results. During our audit of the FY 2003 Army General Fund Financial Statements we determined that DFAS Indianapolis continued to have inadequate controls over suspense accounts. Specifically, field and departmental accounting records were not reconciled with Department of the Treasury records and the differences resolved. In FY 1997 DFAS Indianapolis reported the reconciliation of suspense account balances as a material management control weakness. Since that time, DFAS has neither made progress in correcting the material weakness nor established a corrective action plan to correct the material weakness, as recommended in a prior Inspector General of the Department of Defense report. The difference between the suspense account balances reported by the Department of the Treasury records and the departmental accounting records has increased over the past 3 years by \$767.3 million, or 469 percent. (The difference was \$207.8 million for FY 2000 and increased to \$975.1 million for FY 2003.) This material management control weakness over suspense accounts reduces the reliability of the Fund Balance with Treasury amount reported on the Army General Fund Balance Sheet. Further, DFAS Indianapolis cannot monitor the resolution of transactions in the suspense

accounts effectively. Unresolved transactions residing in suspense accounts can conceal problem disbursements and fraud. The Under Secretary of Defense (Comptroller)/Chief Financial Officer should update the performance metric on suspense accounts to track the progress of DFAS Indianapolis corrective actions. The Director of DFAS Indianapolis should develop and implement a corrective action plan as recommended in a prior Inspector General of the Department of Defense audit report, and update standard operating procedures to reconcile suspense account balances. (See Finding A of the report for the detailed recommendations.)

In addition, DFAS Indianapolis did not resolve the Army General Fund net disbursements reported by the Department of the Treasury and the departmental accounting records for net disbursements maintained by DFAS Indianapolis. As a result, 1,334 variance items that were more than 90 days old remained unresolved as of September 30, 2003. The items totaled approximately \$1.8 billion (\$31 million net). The difference between the Army General Fund net disbursements reported by the Department of the Treasury and the departmental accounting records for net disbursements maintained by DFAS Indianapolis reflected an uncertainty affecting the reliability of the Fund Balance with Treasury amount reported on the Army General Fund Balance Sheet. Also, the Fund Balance with Treasury footnote to the FY 2003 Army General Fund Balance Sheet was inaccurate and misleading. The Director of DFAS Indianapolis should develop and implement a plan for reconciling the Treasury records, and train all personnel responsible for performing reconciliation procedures. The Director of DFAS Indianapolis should also report variances between the Treasury and departmental accounting records in accordance with DoD guidance. (See Finding B of the report for the detailed recommendations.)

Management Comments. The Under Secretary of Defense (Comptroller)/Chief Financial Officer and the DFAS Director, Accounting Services Army concurred with the audit findings and the intent of all the recommendations; therefore, no further comments are required. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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Background

We performed this audit in support of Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994. The Inspector General of the Department of Defense (IG DoD) is required to audit the annual financial statements of the Department of Defense. This report is a result of work performed in support of the audit of the Army General Fund financial statements.

Army General Fund Financial Statements. The Army General Fund Financial Statements consisted of the consolidated balance sheet; consolidated statements of net cost and changes in net position; combined statements of budgetary resources and financing, along with the supporting footnotes; supplementary schedules; and the management overview. The balance sheet presented amounts of future economic benefits owned or managed by the Army General Fund exclusive of items subject to stewardship reporting, amounts owed by the Army, and General Fund equity. The FY 2003 Army General Fund Balance Sheet reported total assets of \$208.7 billion. The FY 2003 Army General Fund Balance Sheet reported \$54.7 billion for Fund Balance with Treasury (FBWT), or 26 percent of total assets. The FBWT represents the aggregate amount of the Army General Fund accounts with the U.S. Treasury from which the Army is authorized to make collections and expenditures.

Defense Finance and Accounting Service, Indianapolis. The Defense Finance and Accounting Service (DFAS) Indianapolis provides finance and accounting support to the Army and Defense agencies. Support includes maintaining accounting records at the Department of the Army or Defense agency level (departmental accounting records). DFAS Indianapolis also prepares financial statements using general ledger trial balances and financial data on the status of appropriations submitted by DoD field accounting activities and other sources. DFAS Indianapolis is also responsible for ensuring the accuracy of the FBWT reported on the Balance Sheet. DFAS Indianapolis controls the reconciliation of detailed field or departmental accounting records with records maintained by the Department of the Treasury. The concept of reconciling departmental accounting records with the Department of the Treasury is analogous to a business reconciling its checkbook to a bank statement. DFAS Indianapolis should reconcile suspense account balances and net disbursement financial information.

Reconciliation of Suspense Account Balances. Personnel at field accounting activities make disbursements for goods or services and make collections from other Government activities or the public. Each of these disbursement and collection transactions must be recorded in the accounting records maintained by the field accounting activities. If the personnel at the field accounting entities make mistakes while recording the disbursements and collections, the transactions cannot be processed correctly and must be placed in suspense accounts. Suspense accounts are clearing accounts that temporarily hold collection and disbursement transactions pending correction of the errors that prevented the correct processing of the transactions in the first place. For

example, a disbursement recorded for a nonexistent appropriation could be placed in a suspense account pending the identification of the appropriation that should be charged. Transactions placed in suspense accounts, or suspended transactions, should be identifiable to a specific appropriation and fiscal year. Field accounting activities should maintain detailed records of suspended transactions. The balance of detailed suspense account records maintained by field accounting activities should be reconcilable to the summary FBWT balance (general ledger account 1010). DFAS Indianapolis forces the summary FBWT balance to match the FBWT balance recorded in the Undisbursed Appropriation Account Trial Balance (TFS 6654), because DFAS Indianapolis does not have an independent source to verify the summary FBWT balance. Suspense accounts should be reconciled and transactions resolved or charged back to the originating activity.

Reconciliation of Net Disbursements. Personnel at field accounting activities report disbursements and collections for all Army General Fund appropriations to DFAS Indianapolis each month. DFAS Indianapolis uses these reports to prepare a single report on disbursements and collections, or net disbursements, to the Department of the Treasury. In turn, the Department of the Treasury sends DFAS Indianapolis a report, the Treasury Trial Balance (TTB), showing the net disbursements according to the records maintained by the Department of the Treasury. DFAS Indianapolis personnel should analyze, reconcile, and eliminate differences between its own records and the TTB. Differences may occur because a field accounting entity outside the Department of the Army reports disbursements or collections to the Treasury, but not to DFAS Indianapolis; and other field accounting activities report transactions to DFAS Indianapolis but not to the Treasury.

Objectives

Our overall audit objective was to determine whether DFAS Indianapolis properly monitored and reconciled suspense accounts and the TTB. We also reviewed the management control program as it related to the overall objective. See Appendix A for a discussion of the scope and methodology and our review of the management control program, and for prior coverage related to the objectives.

A. Reconciliation of Suspense Account Balances

DFAS Indianapolis continued to have inadequate controls over suspense accounts. Specifically, field and departmental accounting records were not reconciled with Department of the Treasury records and the differences resolved. In FY 1997 DFAS Indianapolis reported the reconciliation of suspense account balances as a material management control weakness. Since that time, DFAS has neither made progress in correcting the material weakness nor established a corrective action plan to correct the material weakness, as recommended in a prior IG DoD report. The difference between the suspense account balances reported by the Department of the Treasury records and the departmental accounting records has increased over the past 3 years by \$767.3 million, or 469 percent. (The difference was \$207.8 million for FY 2000 and increased to \$975.1 million for FY 2003.) This material management control weakness over suspense accounts reduces the reliability of the FBWT amount reported on the Army General Fund Balance Sheet. Further, DFAS Indianapolis cannot monitor the resolution of transactions in the suspense accounts effectively. Unresolved transactions residing in suspense accounts can conceal problem disbursements and fraud.

Suspense Account Management

DoD and Treasury Guidance. DoD Regulation 7000.14-R, the DoD Financial Management Regulation, volume 3, chapter 11, “Budget Execution – Availability and Use of Budgetary Resources,” January 2001, requires that all transactions posted to suspense accounts 21F3875 (Budget Clearing Account) and 21F3885 (Undistributed Intergovernmental Payments) be either resolved or charged back to the originating activity within 60 days. The Treasury Financial Manual, Bulletin No. 2003-07 (July 2003), “Subject: Yearend Closing,” requires agencies to resolve all transactions in budget clearing accounts at the end of the fiscal year.

Suspense Account Reporting. There are two reports that should be used to monitor the reconciliation of suspense accounts.

Undisbursed Appropriation Account Trial Balance. The Undisbursed Appropriation Account Trial Balance (TFS 6654) reflects the month-end closing balance recorded in the U.S. Treasury records for all Army General Fund appropriations. These balances are based on the cumulative net disbursements reported to the Department of the Treasury by disbursing stations.

Disbursing Officer Deposit Report. The Disbursing Officer Deposit Report (DODR) is a monthly report of suspense account balances sent from the accounting stations to DFAS Indianapolis. This report is based on records maintained by the field accounting activities and is the only report that shows the ages of suspense account balances. DFAS Indianapolis Standard Operating

Procedure No. 651, "Monitorship of D.O. (Disbursing Office) Deposit Account," November 18, 1999, states that DFAS Indianapolis personnel should analyze the monthly Suspense Account Report.

Suspense Account Controls

DFAS Indianapolis continued to have inadequate controls over suspense accounts. Specifically, DFAS Indianapolis did not reconcile the summary balances for suspense accounts, reported to DFAS Indianapolis on the FMS 6654, with the detailed records of suspense account balances reported on the DODR. The detailed records of suspense account balances should also be reconcilable with the summary FBWT balance (general ledger account 1010).

Material Management Control Weakness. DFAS Indianapolis has reported the reconciliation of suspense account balances as a material management control weakness since FY 1997. DFAS Indianapolis originally intended to correct the material weakness by FY 1998. However, the correction date has continued to slip. The FY 2003 DFAS Annual Assurance Statement reported the target correction date as June 2004, but in his response to this audit the Director, Accounting Services Army stated that corrective action would not be completed until September 30, 2004. The DFAS Indianapolis FY 2003 Annual Assurance Statement reported:

Suspense account balances require extensive reconciliation to ensure that accounts are properly used, supported by adequate documentation, cleared timely, and in agreement with Treasury Trial Balances. Transactions residing in suspense accounts can **conceal problem disbursements and fraud.** [Emphases added.]

DFAS Indianapolis Progress. DFAS Indianapolis has made no progress in correcting the material weakness over reconciling suspense account balances. The DODR showed \$1,395.3 million for the suspense accounts while the TTB reported \$453.2 million as of September 30, 2003. Suspense account balances reported by field accounting entities exceeded suspense account balances reported by the Department of the Treasury by a net of \$942.1 million, or an absolute difference of \$975.1 million as shown in Table 1.

Table 1. Fiscal Year 2003 Ending Balance Differences (millions)			
Suspense Account	FMS 6654 Balance	DODR	Absolute Value of Difference
21 F 3875	\$ 82.3	\$1,040.9	\$ 958.6
21 F 3885	<u>370.9</u>	<u>354.4</u>	<u>16.5</u>
Totals (Column Sums)	\$453.2	\$1,395.3	\$975.1

The difference between the summary suspense account balances reported on FMS 6654 and the balances for the same suspense accounts based on the DODR has grown from \$207.8 million for FY 2000 to \$975.1 million for FY 2003, an increase of \$767.3 million, or 469 percent, in 3 years. This material weakness reduces the reliability of the FBWT amount reported on the Army General Fund Balance Sheet because the actual suspense account balances cannot be identified.

Disbursing Officer Deposit Report and Corrective Action

DFAS Indianapolis has not taken action to establish correct balances in the DODR. At the end of FY 2003, DFAS Indianapolis did not ensure that field activities properly resolved the transactions recorded in the two suspense account records. Instead, DFAS Indianapolis prepared an accounting adjustment for 21F3875 and 21F3885 for \$453.1 million to temporarily reduce the suspense account balances recorded by the Department of the Treasury to zero. Adequate reconciliation is impossible without accurate balances. DFAS Indianapolis also has not established an effective corrective action plan to correct the material weakness, as recommended in IG DoD Report No. D-2001-158, "Compilation of the FY 2000 Army General Fund Financial Statements at the Defense Finance and Accounting Service Indianapolis (Sustaining Forces)," July 13, 2001. In addition, the Under Secretary of Defense (Comptroller)/Chief Financial Officer needs to update the performance metric on suspense accounts to ensure that DFAS Indianapolis corrects the material management weakness and implements a corrective action plan.

Suspense Account Report Balances. DFAS Indianapolis will not be able to perform a reconciliation of suspense account balances, as described in the Annual Statement of Assurance, until it establishes accurate balances in the Suspense Account Report. From FY 2000 to FY 2003, the DODR balances for 21F3875 and 21F3885 have increased from \$385.5 million to \$1.4 billion, or 362 percent in 3 years. This large increase emphasizes the need to establish an accurate balance in the Suspense Account Report.

A contributing factor is DFAS failure to update its procedures to reflect the validation indicators for reconciling suspense accounts contained in the Annual Assurance Statement. Standard Operating Procedure No. 651 does not include actions identified in the Annual Statement of Assurance, for example:

- validate suspense account balances and ensure the balances are supported,
- validate field level transactions with Treasury, and
- validate procedures used to record transactions to ensure they are in accordance with published guidelines.

DFAS Indianapolis should make the validation of the DODR balances a top priority in order to start the reconciliation process. DFAS Indianapolis cannot monitor the resolution of transactions in the suspense accounts effectively. Unresolved transactions residing in suspense accounts can conceal problem disbursements and fraud. DFAS Indianapolis should update its standard operating procedures to reflect statements made in the Annual Assurance Statement.

Corrective Action Plan. The lack of proper reconciliation of suspense account balances was addressed in IG DoD Report No. D-2001-158 in July 2001. The audit report recommended that DFAS Indianapolis determine the actual balance of each suspense account and establish an approved action plan with specific target dates to meet requirements for reconciling suspense accounts 21F3875 and 21F3885. DFAS Indianapolis concurred with the recommendation stating they would develop a plan by March 24, 2002.

DFAS Indianapolis personnel stated they had several ideas for procedures that would correct the material weakness; however, they had not developed an approved corrective action plan. DFAS Indianapolis personnel stated they have focused their efforts on preparing requests for write-offs of unreconcilable suspense account transactions in accordance with Public Law 107-314, “Bob Stumpf National Defense Authorization Act for Fiscal Year 2003.” DFAS Indianapolis personnel prepared write-off packages for submission to DFAS Headquarters for approval to eliminate unreconcilable suspense account balances.

DFAS Indianapolis has expended resources on preparing write-off packages when the effort could have been used to reconcile suspense account balances. The one write-off package submitted to DFAS Headquarters for approval was rejected for the lack of supporting documentation. The next package requested a write-off of a net \$2.3 million in transactions, which is not material to the FBWT. It is unlikely that DFAS Indianapolis will be able to identify significant amounts of transaction write-offs until it has established accurate suspense account balances. Establishing and implementing an action plan is still a viable recommendation for ensuring that suspense account balances are accurate and reconciled.

Performance Metric. The Under Secretary of Defense (Comptroller)/Chief Financial Officer needs to update the suspense account performance metric to

ensure that DFAS Indianapolis corrects the material management weakness and implements a corrective action plan. The existing metric shows monthly suspense account balances and has a goal of a ten percent reduction of the FY 2004 balance per year; however, the problem at DFAS Indianapolis is increasing. The performance metric should include:

- elements that address the corrective actions identified in the Annual Assurance Statement and the IG DoD report,
- milestone dates for each element, and
- the progress made in meeting the plan elements and milestone dates at periodic intervals.

An updated metric is needed for the following reasons:

- a material weakness has existed for 6 years,
- Annual Assurance Statement corrective actions have not been included in the standard operating procedures, and
- the IG DoD recommendation was not implemented by the agreed-upon date.

Conclusion

Between FY 2000 and FY 2003, the difference in balances between the TTB and the Suspense Account Record has increased by 469 percent. This represents a material and increasing uncertainty that will impact the Army's ability to obtain an unqualified opinion on the General Fund Balance Sheet. In the event that DFAS Indianapolis does not determine the actual balance of suspense accounts, the amount reported for FBWT on the Army General Fund Balance Sheet will remain unreliable.

Recommendations and Management Comments

A.1. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer update the performance metric on suspense accounts to track the progress for reconciling the field accounting records of suspense account balances with the summary FBWT balance (general ledger account 1010). The metric should include milestones and quantify the progress made in meeting the corrective plan elements at periodic intervals.

Management Comments. The Under Secretary of Defense (Comptroller)/Chief Financial Officer concurred, stating that the performance metric would be developed. On July 12, 2004, Comptroller personnel informed us that the metric

would be implemented by September 30, 2004, and would be used for October 2004 reporting.

A.2. We recommend that the Director, Defense Finance and Accounting Service Indianapolis:

a. Develop and implement a corrective action plan as recommended in IG DoD audit report on the “Compilation of the FY 2000 Army General Fund Financial Statements at DFAS Indianapolis (Sustaining Forces),” Report No. D-2001-158, July 13, 2001.

Management Comments. The Director, Accounting Services Army concurred, stating DFAS implemented the intent of the recommendation as part of the revised procedures for legislative write-off. Once the final write-off package is received and approved, DFAS Indianapolis will have supportable balances at field level, departmental level, and at Treasury. The Director stated all actions would be completed by August 31, 2004.

b. Update standard operating procedures to reconcile suspense account balances and to ensure that suspense accounts are: accurate, properly used, adequately supported by documentation, cleared timely, and in agreement with Treasury Trial Balances.

Management Comments. The Director, Accounting Services Army concurred, stating the standard operating procedures were revised to include detailed methodology for reconciling field level balances to departmental balances. Additional revisions will occur after unsupported balances are removed. The Director stated all actions would be completed by September 30, 2004.

B. Reconciliation of Net Disbursements

DFAS Indianapolis did not resolve variances between the Army General Fund net disbursements reported by the TTB with the departmental accounting records for net disbursements maintained by DFAS Indianapolis. Also, DFAS Indianapolis incorrectly reported that there were no differences between its departmental accounting records and the TTB. This occurred because DFAS Indianapolis did not follow its standard operating procedures, and personnel were not adequately trained. Also, DFAS Indianapolis did not follow DoD guidance for preparing the FBWT footnote to the FY 2003 Army General Fund Balance Sheet. As a result, 1,334 variance items that were more than 90 days old remained unresolved as of September 30, 2003. The items totaled approximately \$1.8 billion (\$31 million net). The difference between the TTB and departmental accounting records reflected an uncertainty affecting the reliability of the FBWT amount reported on the Army General Fund Balance Sheet. Also, the FBWT footnote to the FY 2003 Army General Fund Balance Sheet was inaccurate and misleading.

Reconciliation Procedures and Process

DFAS Indianapolis Reconciliation Process. At the end of each month DFAS Indianapolis personnel prepare a report detailing the discrepancies, or variances, between the FBWT as recorded by the Department of the Treasury in the TTB, and the departmental records maintained by DFAS Indianapolis. DFAS Indianapolis personnel then use this TTB variance report to prepare an accounting adjustment to force the departmental records to match the TTB. DFAS Indianapolis personnel document their TTB reconciliation on spreadsheets. These spreadsheets list each variance item, date the variance occurred, and an explanation. The variance items are listed at the appropriation level.

Financial Statement Disclosure of the TTB Variance. DoD Regulation 7000.14-R, the DoD Financial Management Regulation, volume 6B, chapter 10, “Notes to the Financial Statements,” January 2002, requires disclosure of information concerning the TTB variance. Footnote 3, “Fund Balance With Treasury,” requires disclosure of the amount of the TTB variance and an explanation of the variances. The regulation further requires that variances resulting from time lags be reconciled, that variances due to errors be corrected, and that the amount of each type of variance be disclosed.

Resolution of the Variances

DFAS Indianapolis did not resolve the TTB with the departmental accounting records for net disbursements. Specifically, DFAS Indianapolis did not resolve the aged variance amounts, and the TTB reconciliation spreadsheets were

incomplete because they did not include all accounts. As a result, the difference between the TTB and departmental accounting records reflected a potential uncertainty affecting the amount reported as the FBWT for the Army General Fund.

Aged Variance Amounts. Variance items that might have been caused by errors could not be corrected because they were not resolved. The TTB spread sheets, as of September 30, 2003, identified 1,573 variance items for \$3.3 billion absolute value (\$29.2 million net). Of the 1,573 variance items, 1,334 items totaling about \$1.8 billion absolute value (net value of \$31 million) were more than 90 days old.* These variance items included prior year adjustments and variances in closed appropriation accounts. The TTB spreadsheets neither identify how the variance items were determined nor what caused them. Table 2 shows examples of unresolved variance amounts identified on the TTB spreadsheets.

Table 2. Examples of Variances as of September 30, 2003

Appropriation	Largest Variance Item		
	Amount (Millions)	Number of Months Old	Date Identified
21 F 3875	\$371.0	71	November 1998
21 00 2020	\$146.2	33	January 2001
21 01 0702	\$ 11.5	27	July 2001

Reconciliation Spreadsheet Completeness. In addition, there were \$49.1 million (\$7.6 million net value) of variances not accounted for on the reconciliation spreadsheets as of September 30, 2003. The DFAS Indianapolis personnel responsible for reconciling suspense and receipt accounts were not aware of these omitted variance amounts. We were not able to age these variance items because the items were not identified on the TTB spreadsheets.

Reconciliation Procedures

DFAS Indianapolis personnel did not resolve variances between the TTB and departmental accounting records because they did not always follow DFAS Indianapolis Standard Operating Procedure No. 501, "Balance Forward Vs. Treasury Trial Balance Disbursements and Reimbursements," July 17, 2000. The standard operating procedure requires the analysis and reconciliation of Army net

*Variance items less than 90 days old are considered timing differences, that is, transactions that are in-transit from when they are recorded in the departmental accounting records until the transactions are captured by the Department of the Treasury.

disbursements recorded at Treasury. The standard operating procedure mandates that once the cause for any variance between the TTB and departmental accounting records has been determined, personnel must prepare a Memorandum for Record identifying those differences and the action being taken to resolve them. DFAS Indianapolis personnel responsible for reconciling the TTB variances did not prepare the memorandum. The DFAS Indianapolis personnel responsible for reconciling the suspense and receipt accounts with the TTB were not aware of the standard operating procedure's existence. DFAS Indianapolis management should provide training to the personnel responsible for reconciling the records, to include:

- requirements of Standard Operating Procedure No. 501,
- reconciliation methods, and
- preparation of the memorandum for the record for correcting variance deficiencies.

The difference between the TTB and departmental accounting records constitutes a potential uncertainty affecting the amount reported as the FBWT for the Army General Fund. The longer the variance amounts go unresolved, the less likely that the variances can be corrected. DFAS Indianapolis should develop and implement a plan to ensure the reconciliation requirements are followed. The plan should include corrective actions, milestone dates, and performance measures. Written periodic updates should be provided to the Director.

Footnote Disclosure of the TTB Variance

In Footnote No. 3 of the FY 2003 Army General Fund Financial Statements, DFAS Indianapolis incorrectly reported that there were no differences between its departmental accounting records and the TTB. Line 2A of the footnote, "Reconciling Amount," shows an amount of \$0. However, the sum of the variances between Treasury and the departmental accounting records in the September 2003 TTB variance report was \$29.3 million. DFAS Indianapolis personnel stated that although the TTB and the departmental accounting records may have a variance of \$29 million, the Balance Sheet reports a FBWT in agreement with the TTB rather than the departmental records, so no variance need be reported. While the journal voucher prepared using the TTB variance report did force the Army General Fund departmental accounting records into a temporary and artificial agreement with the TTB, the underlying variances had not been eliminated in accordance with DoD guidance. As a result, the FBWT footnote in the Army General Fund FY 2003 Financial Statements was inaccurate. DFAS Indianapolis should report variances between the TTB and departmental records in accordance with DoD guidance.

Recommendations and Management Comments

B. We recommend that the Director, Defense Finance and Accounting Service, Indianapolis:

1. Develop and implement a plan for reconciling the Treasury Trial Balance. The plan should include:

- a. corrective actions,**
- b. milestone dates,**
- c. performance measures, and**
- d. periodic reporting to the director.**

Management Comments. The Director, Accounting Services Army concurred and stated that a plan of action was developed and executed to allow the Expenditure and Reporting Division to manually reconcile all balances at the Treasury transmitter level. They are developing an automated tool to track and age the variances. The Director stated all actions would be completed by September 30, 2004.

2. Train all personnel responsible for performing reconciliation procedures.

Management Comments. The Director, Accounting Services Army concurred and stated that the Expenditure and Reporting Division will provide cross training to all personnel responsible for performing reconciliation to ensure the continuity of operation during the absence of primary personnel. The Director stated all actions would be completed by August 31, 2004.

3. Report variances between the Treasury Trial Balance and departmental accounting records in accordance with DoD guidance.

Management Comments. The Director, Accounting Services Army concurred with the recommendation and stated that footnotes on the financial statements will reflect all variances. This action will be completed by July 31, 2004.

Appendix A. Scope and Methodology

We reviewed the DFAS Indianapolis processes for monitoring and reconciling suspense accounts and the TTB. Specifically, we reviewed the procedures used to reconcile net disbursement data reported to the Treasury on FMS Form 6654, Undisbursed Appropriations Trial Balances and Receipt Account Trial Balance. We examined the TTB Variance Reports, FMS Form 6654, and explanatory spreadsheets prepared by DFAS Indianapolis, as of September 30, 2003, to determine if all TTB variances are properly reconciled.

We also examined the DFAS Indianapolis procedures relating to monitoring and reconciling the Army General Fund departmental suspense accounts (21F3875 and 21F3885). We examined Suspense Account Reports and a DFAS Indianapolis journal voucher to determine the FY 2003 suspense account balances. Our review included interviews with DFAS Indianapolis personnel to obtain an understanding of the monitorship and reconciliation process.

We performed this audit from October 2003 through January 2004 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. We used reports generated by accounting systems within the U.S. Treasury, DFAS Indianapolis, and DFAS field accounting sites to perform this audit. The review of DFAS Indianapolis controls over the information used to prepare the Suspense Account Reports casts doubts over the data's validity. These doubts about the reliability of the Suspense Account Reports are discussed in Finding A. We did not review the accounting systems used by the U.S. Treasury and field accounting sites that produced the data that DFAS Indianapolis used to prepare TTB Variance Reports. However, the data, when reviewed in context with other available evidence, validate the opinions, conclusions, and recommendations in this report.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management high-risk area.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of DFAS Indianapolis management controls over suspense accounts and TTB Reconciliation. We also reviewed the adequacy of management's self-evaluation of those controls.

Adequacy of Management Controls. We identified a material management control weakness for DFAS Indianapolis, as defined by DoD Instruction 5010.40. DFAS Indianapolis management controls to ensure that suspense account balances and net disbursements were properly monitored and reconciled were not adequate. Recommendations A.1, A.2.a, A.2.b, B.1, B.2, and B.3, if implemented, will correct the identified weakness. A copy of the report will be provided to the senior official responsible for management controls in DFAS Indianapolis.

Adequacy of Management's Self-Evaluation. DFAS Indianapolis officials did not identify net disbursements reconciliation as an assessable unit and, therefore, did not identify or report the material management control weakness identified by the audit. DFAS Indianapolis officials identified the reconciliation of suspense account balances as an assessable unit and reported suspense account balances as a material weakness.

Prior Coverage

During the last 5 years, the Inspector General of the Department of Defense (IG DoD) has issued one report discussing suspense account balances. We did not identify any prior reports discussing the net disbursements reconciliation.

IG DoD

IG DoD Report No. D-2001-158, "Compilation of the FY 2000 Army General Fund Financial Statements at the Defense Finance and Accounting Service Indianapolis (Sustaining Forces)," July 13, 2001.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service – Indianapolis

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Office of the Under Secretary of Defense Comments



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

JUL 09 2004

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE

SUBJECT: Report on Selected Controls Over the Army Fund Balance with Treasury at Defense
Finance and Accounting Service Indianapolis (Project No. D2004FI-0008)

This is in response to your memorandum of March 12, 2004, and the e-mail amendment dated June 9, 2004.

This office concurs with Recommendation A.1 to update the performance metric on suspense accounts to track the progress of reconciling the field level accounting records with the Departmental summary records for suspense account balances and the U.S. Standard General Ledger account 1010 "Fund Balance With Treasury," as reported by the Department of the Treasury (Financial Management Services). Detailed comments are in the Attachment.

My point of contact is Mr. Oscar G. Covell. He may be reached by e-mail: Oscar.Covell@osd.mil or by telephone at (703) 697-6149.

Claretta Harker
for JoAnn Boutelle
Deputy Chief Financial Officer

cc: Director, DFAS

Attachment:
As stated

Inspector General Department of Defense (IG, DOD)
Draft Report Dated March 12, 2004; (Project No. D-2004FI-0008
“Selected Controls Over the Army Fund Balance With Treasury at Defense Finance
and Accounting Service, Indianapolis”

Department of Defense (DoD) Comments

Recommendation A.1. We recommend that the Under Secretary of Defense (Comptroller) update the performance metric on suspense accounts to track the progress for reconciling the field accounting records of suspense account balances with the summary FBWT balance (general ledger account 1010). The metric should include milestones and quantify the progress made in meeting the corrective plan elements at periodic intervals.

DoD Response. Concur. We will develop a performance metric to track the progress of reconciling the Departmental balances to the amounts reported by the Department of the Treasury (Financial Management Services) on the monthly FMS 6653 “Undisbursed Appropriation Ledger” and FMS 6654 “Undisbursed Appropriation Account Trial Balance.”

Defense Finance and Accounting Service Indianapolis Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
8899 EAST 56TH STREET
INDIANAPOLIS, INDIANA 46249

JUN 13 2004

DFAS-ADIC/IN

MEMORANDUM FOR OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT
OF DEFENSE

SUBJECT: Department of Defense Inspector General (DoDIG) Audit Report D-2004FI-0008,
"Selected Controls Over Army Funds Balance With Treasury (FBWT) at
DFAS Indianapolis"

Accounting Services, Army is providing current management comments to
recommendations A.2.a., A.2.b., B.1.a., B.1.b., B.1.c., B.1.d., B.2., and B.3. as follows:

Recommendation A.2: Recommend that the Director, Accounting Services, Army:

a. Develop and implement a corrective action plan as recommended in DoDIG audit report
on the "Compilation of the FY 2000 Army General Fund Financial Statements at DFAS
Indianapolis (Sustaining Forces)," Report No. D-2001-158, July 13, 2001.

Current Management Comments: Stakeholder: Greg Heidrich, ext: 4618. Departmental
Accounting concurs. We have implemented the intent of this recommendation as part of our
revised procedures for legislative write-off. The write-off procedures incorporate a procedure
that facilitates reconciliations from field level balances to the Treasury. Departmental
Accounting identified:

- supportable balances at the field level and at Treasury;
- unsupported balances at field level and Treasury that fell under the umbrella of the write-off
legislation; and,
- unsupported balances at field level and Treasury requiring research and absorption by the
service.

DFAS Arlington Internal Review approved of our methodology and results. Our first
submitted package to the Office of the Secretary for Defense (OSD) was accepted and approved.
Once our final write-off package is received and approved, we will have supportable balances at
field level, departmental level, and Treasury.

Estimated Completion Date: August 31, 2004.

b. Update standard operating procedures to reconcile suspense account balances and to
ensure that suspense accounts are: accurate, properly used, adequately supported by
documentation, cleared timely, and in agreement with Treasury Trial Balances.

Current Management Comments: Stakeholder: Greg Heidrich, ext: 4618. Departmental
Accounting concurs. Revision to our standard operating procedures (SOP) are complete and
include a detailed methodology for reconciling field level balances to departmental balances.

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Additional SOP revisions will occur after unsupported balances are removed to incorporate procedures for reconciling departmental balances to the Treasury.

Estimated Completion Date: September 30, 2004

Recommendation B: We recommend that the Director, Defense Finance and Accounting Service, Indianapolis:

1. Develop and implement a plan for reconciling the Treasury Trial Balance. The plan should include:
 - a. corrective actions,
 - b. milestone dates,
 - c. performance measures, and
 - d. periodic reporting to the director.

Current Management Comments: Stakeholder: Greg Heidrich, ext: 4618. Departmental Accounting, concurs. We developed and executed a Plan of Action that allows the Division to manually reconcile all balances at the Treasury submitter level. We are currently performing the necessary actions to develop an automated tool to track and age the variances. When a variance is identified we notify the responsible activity and request clearance within 30 days. If not cleared within the requested timeframe the issue is reported through proper channels for additional action. All balances are reconciled and monitored monthly.

Estimated Completion Date: All items in the plan have been completed with the exception automating the process. Automation of the process is required because of the labor intensive activities associated with performing the function manually. We expect that item to be completed NLT September 30, 2004.

Estimated Completion Date: September 30, 2004

2. Train all personnel responsible for performing reconciliation procedures.

Current Management Comments. Stakeholder: Greg Heidrich, ext: 4618. Departmental Accounting concurs. We are revising the existing Standard Operating Procedures (SOP) to include current operating procedures. The Expenditure and Reporting Division will provide cross training to all personnel responsible for performing reconciliation's to ensure the continuity of operation during the absence of the primary personnel.


Estimated Completion Date: August 31, 2004

3. Report variances between the Treasury Trial Balance and Departmental accounting records in accordance with DoD Financial Management Regulation (DoDFMR) 7000.14-R, Volume 6B, Chapter 10, "Notes to the Financial Statements."

Current Management Comments. Stakeholder: Greg Schmalfeldt, ext: 6192. Departmental Accounting concurs. Footnotes on the Financial Statements will reflect all variances.

Estimated Completion Date: July 31, 2004 (3rd Quarter Financial Statements for FY 04)

My points of contact are Greg Heidrich, Directorate of Accounting, Expenditure and Reporting Division at 317-510-4618 and Greg Schmalfeldt, Departmental Accounting, Audited Financial Statements Division at 317-510-6192.



Steve R. Bonta
Director, Accounting Services
Army

Team Members

The Office of the Deputy Inspector General for Auditing of the Department of Defense, Defense Financial Auditing Service prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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